Indian budget offers concessions to big business while slashing price subsidies

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India's Congress Party-led government has tabled a budget that provides domestic and foreign investors with fresh tax and other concessions, while slashing subsidies for working people and the rural poor.

In Thursday's budget address, Finance Minister Palaniappan Chidambaram repeated the arguments he and Prime Minister Manmohan Singh made last September when they announced a series of "pro-investor" measures—what they termed "big bang reforms": India desperately needs to woo foreign investors if it is to return to rapid economic growth.

"India at the present juncture does not have the choice of welcoming and spurning foreign investment," declared Chidambaram. "We need to welcome foreign investment."

Toward that end, the government outlined a series of new tax concessions for business and pledged to meet the demands of international credit rating agencies for "fiscal consolidation"—i.e. the lowering of the deficit to GDP ratio, especially through cuts to subsidies for fuel, fertilizer, and staple foods.

While the finance minister emphasized the connection between foreign investment and economic growth, he conceded that foreign investment is urgently needed to contend with a mounting current accounts deficit, a problem that has been compounded by the rapid depreciation of the rupee over the past two years.

Chidambaram said India will need at least $US 75 billion from foreign investment and external commercial borrowing to bridge the current account deficit this year and probably a similar amount next year. Citigroup, for its part, estimates India's current account deficit for the 2012-13 fiscal year, which ends at the end of this month, at $88 billion (4.7 percent of GDP).

Budget measures aimed at pleasing local and foreign investors include a capital allowance of 15 percent on investments of more than 1 billion rupees (US $20 million) and zero custom duty for electrical plants and machinery. Henceforth, Foreign Institutional Investors (FIIs) will be able to use investments in corporate and government bonds as collateral to meet margin requirements and also to hedge forex (foreign exchange) exposure through exchange-traded derivatives. Insurance and provident funds will be allowed to trade directly in debt segments of stock exchanges. To stimulate private investment in joint ventures with state companies in the oil and gas sector, the partners will share revenues rather than profits.

To further encourage investment, particularly in transportation and energy infrastructure, Chidambaram announced the government will raise 500 billion rupees through tax-free bonds, build two new ports, and create two new industrial corridors and seven new "smart" cities.

Underlining the basic thrust of the budget, Prime Minister Singh hailed Chidambaram for taking "important steps to reverse pessimistic mood with regard to investment climate, with regard to the growth and possibilities of our economy."

In the final months of the current fiscal year, Chidambaram led a major cost-cutting drive, ordering across-the-board cuts in all departments and ministries aimed at reducing expenditure for 2012-13 by almost 6 percent, so as to meet the previously announced deficit-to-GDP target of 5.3 percent.

Chidambaram's budget pledges to reduce the deficit-to-GDP ratio by .5 percent to 4.8 percent in 2013-14, principally through subsidy cuts, proceeds from privatization and telecom spectrum sales and increased tax revenues. The revenue projections are dependent on India achieving a much higher growth rate in the coming fiscal year—a tall order given the state of the world economy.

The budget calls for the petroleum subsidy to be cut by 33 percent to 650 billion rupees for the 2013-14 fiscal year, from 968.8 billion rupees in the current fiscal year. The estimated food subsidy for 2013-14 is 900 billion rupees, which is slightly more than the 850 billon rupee revised-allocation for 2012-13. But when the current near double-digit inflation rate is taken into account, the food subsidy allocation constitutes a cut in real terms.

In January, the Congress Party-led United Progressive Alliance government decontrolled diesel prices, paving the way for continuous hikes in prices as is already the case for petrol. Cuts in fuel subsidies will further drive up transport costs leading to higher prices for many commodities, including food—and this in a country where three-quarter of the population survives on less than $2 per day.

The railway budget, which was presented to the parliament on February 26, did not increase passenger fares, which had been hiked the previous month, but did increased freight charges, which will also push up the prices of many goods.

In crafting his budget Chidambaram sought to achieve a delicate balance —boosting growth and lavishing new sops on investors, while reducing the deficit to GDP ratio and squeezing the limited demand of India's working people through subsidy cuts that will force them to pay more for essentials.

The Indian economy has been hard hit by falling exports to the U.S. and especially Europe. In the first three quarters of the 2012-13 fiscal year, exports fell by 5.5 percent as compared with the same period the previous year. Meanwhile, the slide in the value of the rupee drove up the cost of imports, including oil. (India relies on imports for more than 70 percent of its oil.)

India's growth rate for 2012-13 is expected to be just 5 percent. This is a far cry not only from the 8 percent growth Manmohan Singh says is necessary to absorb the ten million new annual entrants to the labour force and sustain support for the Indian elite's "economic reform program," but also from the 7.6 growth forecasted in the 2012-13 budget.

The credit-rating agencies have responded to India's economic slowdown by threatening to downgrade its sovereign bonds to "junk" status. Indeed that threat was a major reason for September's "big bang" reforms, which included opening up the retail sector to multi-brand retailers like Walmart and a major cut in the subsidy for liquid natural gas canisters, which many Indians use in cooking.

Given the government's fiscal crisis and the enormous tax concessions successive governments have granted to big business over the past two decades, Chidambaram's room for corporate tax cuts and incentives was limited.

He offered a minor tax cut to middle class taxpayers. And as a temporary measure for just one year, imposed a 10 percent surcharge on the approximately 42,000 Indians with taxable incomes above 10 million rupees ($186,000). A 5 to 10 percent surcharge will also be levied on domestic corporates whose income exceeds 100 million rupees ($1.9 million) a year. Duties on mobile phones, cigarettes and luxury vehicles have also been raised.

Under conditions where Indians will be going to the polls in national elections in the first half of 2014, the government, which never tires of hypocritically declaring its concern for the *aam aadmi* (common man), intends to use the surcharges to claim that it is asking sacrifices of all Indians.

The past year has provided ample evidence of mounting popular anger against the government. Just one week before Chidambaram delivered his budget, tens of millions of workers throughout the country joined a two-day general strike to protest against the government's big business socio-economic policies.

Nonetheless, the finance minister was most apologetic in announcing the surcharges on super-rich individuals and corporate profits, "I am confident," said Chidambaram, "that when I ask the relatively prosperous to bear a little more burden for one year, just one year, they will do so cheerfully." In a post-budget press conference, he said, "Once tax revenues grow, a year later we don't need the surcharge. It is like a bridge."

In his post-budget press conference, Chidambaram also pledged more pro-business and investor "measures and decisions" will be announced in the current session of parliament, insisting the budget is not a one-stop or one-step measure but a continuing process. The budget hikes the allocation for defence expenditure to 2.03 trillion rupees (US $37.7 billion), 14 percent more than the 1.79 billion rupees allotted in the revised estimates announced last fall.

The UPA has dramatically increased military expenditure as it seeks to modernize India's armed forces, including by developing a blue-water navy, so as to aggressively pursue the Indian bourgeoisie's ambitions across Asia and the Indian Ocean region. The budget allocates 867.4 billion rupees for the procurement of new arms and weapons systems.

In his speech, Chidambaram promised that the government stands ready to allocate additional monies for defence if required: "I assure the house that (defence spending) constraints will not come in the way of providing any additional requirement for the security of the nation." In January there were a series of fatal border clashes between the Indian and Pakistani militaries across the Line of Control in the disputed Kashmir region.

Expressing his satisfaction with the allocation, Defence Minister A.K. Antony said to reporters, "Factoring the current economic scenario, he (Chidambaram) has been fair to the Defence sector also by increasing the budget and giving an assurance that should there be any urgent need in future, the same would be provided."

Corporate India has generally welcomed the budget, praising Chidambaram for pressing forward with "deficit consolidation" despite the battering India's economy has taken and "political factors" – i.e. the fast approaching general elections and growing mass opposition towards the government's privatization and austerity policies. Sujan Hajra, chief economist at Anand Rathi, a Mumbai-based securities firm, said: "This is a big picture budget making the best out of a bad situation." He added, "The direct priorities seem to be reining in the fiscal deficit and avoiding populist measures." In an op-ed piece in the *Economic Times*, Kumar M. Birla of the Birla business dynasty termed the budget "pragmatic and attuned to global and domestic economic realities." Continued Birla, "The minister's commitment to winning back the trust and confidence of entrepreneurs and investors, and making India an easier place to do business in, is reassuring."

International business publications took a more jaundiced view. Reuters claimed the budget has sent "a mixed and confusing message to investors."

A *Hindustan Times* comment noted, "Palaniappan Chidambaram had promised the nation a responsible budget and he has delivered." Then it advised those sections of big business who are not satisfied by the budget, "The market may have priced in higher expectations. It must realise the true achievement here is that economics has prevailed over the populism inherent in an election-year budget."

Several Indian media reports have highlighted Chidambaram's increase of total government spending by 16.4 percent to 16.65 trillion rupees ($US 333 billion) for the coming fiscal year from 14.3 trillion ($286 billion) in the current fiscal year. Given India's nearly 10 percent inflation rate, this increase is far less significant than first appears. Moreover, this much-hyped expenditure hike is clearly an attempt to paper over problems created by the government's slashing of 1 trillion rupees ($18 billion) from budget allocations late last year.

As Chidambaram made clear, his 2013-14 spending allocations are dependent on the government realizing its deficit consolidation and revenue targets. The increase in spending is based on the higher tax revenue projected from a highly optimistic growth target of between 6.1 and 6.7 percent in the coming year. Should this target not be met—which is very likely given global economic conditions–the government will slash spending, as it did in the final months of this fiscal year, with social spending the first casualty.